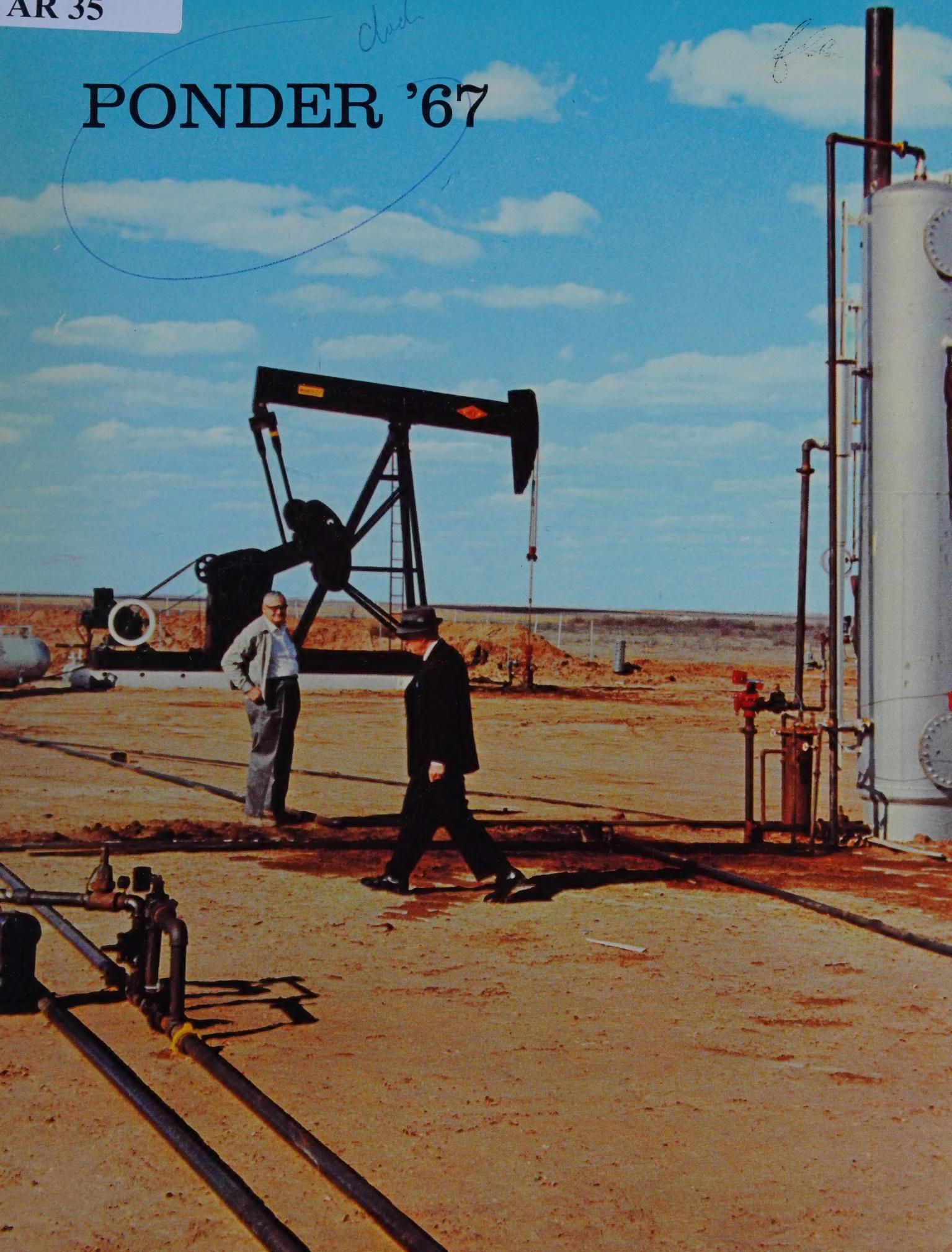


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POUNDER '67



Cox-Elrod No. 1, Playa Field, Martin
County, Texas. Discovery Inc.'s Oil
Well. Initial Production, January 1968.

Annual Report to the Shareholders

PONDER OILS LTD.

**Incorporated under the Laws of the Province of Alberta
(Listed on Toronto and Calgary Stock Exchanges)**

**HEAD OFFICE — 806 LANCASTER BUILDING
CALGARY, ALBERTA**

DIRECTORS AND OFFICERS

W. L. Falconer, Calgary, Alberta — President and Managing Director
Geo. R. Gibson, Midland, Texas — Vice-President and Director
E. R. Alexander Jr., Toronto, Ontario — Director
F. J. Heagle, Calgary, Alberta — Director
F. Leroy Hill, Rockford, Illinois — Director
L. S. Walsh, Bayside, New York — Director
H. F. Gain, Calgary, Alberta — Secretary
D. A. McFee, Winnipeg, Manitoba — Treasurer

REGISTRAR

**MONTREAL TRUST COMPANY
Calgary, Alberta — Toronto, Ontario**

TRANSFER AGENT

**MONTREAL TRUST COMPANY
Calgary, Alberta — Toronto, Ontario**

AUDITORS

**PRICE WATERHOUSE & CO.
Chartered Accountants
Calgary, Alberta**

DIRECTORS' REPORT

To The Shareholders:

Your Directors present herewith a Consolidated Balance Sheet, Statement of Income and Retained Earnings, Statement of Source and Application of Funds for Ponder Oils Ltd. and its wholly-owned subsidiaries — Universal Printers Ltd. and Discovery Inc., — for the year ended December 31, 1967. The net income from operations after providing for taxes amounted to \$194,098 or seven and four-tenths cents per share, as compared to five cents per share in 1966. This healthy increase was due to improved efficiency in the printing plants, expanded sales and a modest increase in oil and gas production in both Alberta & West Texas.

Dividends of one and one-half cents per share on the Common stock of the company were paid to shareholders June 15 and December 15, 1967 — a total of three cents per share for the year. The Board has declared a dividend of one and one-half cents per share to be paid June 15, 1968 to shareholders of record May 31, 1968.

During the year the Company retired its long term debt. Free of this inhibition, a diamond drilling program in British Columbia, follow-up drilling in the border field of Alberta, and an active development in West Texas, have been undertaken. The results of these activities are reported elsewhere in this report.

It is a pleasure for the Directors to record their sincere thanks and appreciation for the loyalty and co-operation of our employees, whose efforts have contributed to the operations during 1967.

You are urged to attend the shareholders' meeting on April 30, 1968, but if unable to do so, please sign and return the enclosed proxy.

For the Board of Directors,
W. L. Falconer,
President

Calgary, Alberta.
April 8th, 1968.

PONDER OILS LTD.

ALBERTA

In Southern Alberta the Company drilled and completed a successful offset oil well to its 1966 discovery in the Moulton Sand Field near the town of Milk River. Two other wells drilled during the year in this area failed as producers. One of these latter tests will probably be salvaged as an injection-fluid source well when secondary recovery procedures are inaugurated.

BRITISH COLUMBIA

In the Illiance River Valley near Alice Arm, British Columbia, the Company has an option on 36 mineral claims and has staked an additional three mineral claims. During the snow-free period from mid-July to the first of October, the Company cored 4,300 feet of diamond-drill hole in 17 holes; the shortest was 100 feet and the longest some 384 feet. Four localities along a mineralized and altered zone in andesitic rocks, some 300 to 400 feet wide and better than 7,000 feet long extending from elevation 3000' to 4500', were tested.

Our exploration of this zone was suspended because of the impending snows of early winter and our complete dependence upon helicopters for supply and communication. 1967 work results were inconclusive but encouraging. Samples obtained from surface cuts continue to reflect the results obtained in 1966 in preliminary examination with high values in silver, lead and zinc. Diamond drill core produced several interesting intersections, one of which — 150 feet below the surface — returned good silver values that indicated the possibility of finding acceptable grades and tonnages in the mineral zone under examination.

The Company plans to follow-up last year's (1967) drilling and extend its exploration to other localities along the Illiance altered zone as soon as conditions permit.

DISCOVERY INC.

TEXAS

In November 1967 the Company participated in the discovery of a new producing horizon in the Playa Field, Martin County, Texas. This has resulted in a continuing land play and drilling program since that date. Currently in this field eight wells have been completed and the ninth is drilling. An interest in better than 6,000 acres has been obtained by lease and farm-out on which there are a possible 48 locations of which 12 are now offsets to producers. The present development program calls for a well to be drilled every three weeks. The Company's share of this development will exceed \$240,000 for 1968, and drilling is expected to continue with the same vigor through 1969.

During the year, a three-well program was completed successfully in Reagan County, Texas, by the drilling of two wells. The Company's production in Rio Blanco County in Colorado was terminated during the year by the completion of a production payment which commenced in 1961.

UNIVERSAL PRINTERS LTD.

MANITOBA

During 1967 Universal Printers Ltd., the Company's wholly-owned printing subsidiary in Winnipeg, Manitoba, experienced an increase in sales. Both the new commercial printing plant at 1205 Sherwin Road and the book plant on Elgin Avenue ran better, a fact reflected in the Company's financial statements.

In the forthcoming year no major capital expenditure is anticipated. The Company, however, will continue to follow its policy of equipment replacement and up-grading of services.

PONDE

AND WHOLL

Consolidated Balance

(with comp

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	\$ 3,347	\$ 9,026
Accounts receivable—		
Trade	322,312	375,497
Employees	2,025	6,566
Other (Note 3)	84,605	82,435
Inventories—		
Finished goods, at selling price	12,644	7,963
Work in process, at estimated cost	29,990	20,858
Paper, ink and supplies, at the lower of cost or net realizable value	119,917	90,579
Prepaid expenses and deposits	16,527	18,894
	591,367	611,818
SPECIAL REFUNDABLE TAX	4,947	4,227
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	36,999	36,999
Leases and well costs	238,559	140,741
Buildings	216,755	191,755
Machinery and equipment	1,190,605	1,239,322
Type and metal	54,016	54,016
Office furniture and fixtures	40,747	36,859
	1,777,681	1,699,692
Less—Accumulated depreciation and depletion	1,027,805	913,211
	749,876	786,481
OTHER ASSETS:		
Rent paid in advance (Note 5)	20,424	27,852
Unamortized leasehold improvements	8,646	10,951
Organization costs	5,237	5,237
Deferred charges—Mining exploration (Note 4)	59,410	3,190
	93,717	47,230
EXCESS OF PURCHASE PRICE OVER BOOK VALUE OF SUBSIDIARY	849,981	849,981
	\$2,289,888	\$2,299,737

S LTD.

SUBSIDIARIES

December 31, 1967

(es for 1966)

LIABILITIES

	1967	1966
CURRENT LIABILITIES:		
Bank loan, secured	\$ 40,108	\$ 115,108
Accounts payable—		
Trade	144,967	135,501
Other	24,839	152,262
Income taxes payable	24,975
Sales taxes payable	7,457
	<hr/>	<hr/>
	242,346	402,871

MORTGAGE PAYABLE:

Repayable in monthly instalments of \$143 including taxes, ground rent and interest at 6¾%	14,549
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DEFERRED INCOME TAXES (Note 1)	133,200	113,000
---------------------------------------------	---------	---------

SHAREHOLDERS' OWNERSHIP:

Share capital—		
Authorized—		
15,000 6% cumulative redeemable preference shares of a par value of \$100 each		
4,000,000 common shares of a par value of 50c each		
Issued—(Note 2)		
8,334 preference shares	833,400	833,400
Less—shares held by subsidiary company	(833,400)	(833,400)
2,605,700 common shares	1,302,850	1,302,850
Retained earnings, per statement attached	596,943	481,016
	<hr/>	<hr/>
	1,899,793	1,783,866

APPROVED ON BEHALF OF THE BOARD:

W. L. FALCONER, Director

F. J. HEAGLE, Director

The Auditors' Report is attached to this balance sheet.	<hr/>	<hr/>
	\$2,289,888	\$2,299,737

PONDER OILS LTD.
AND WHOLLY-OWNED SUBSIDIARIES

Notes to Financial Statements

DECEMBER 31, 1967

1. For purposes of determining income taxes, the companies claim the maximum allowable deductions for depreciation, development and depletion. The claims for depreciation in 1967 are in excess of amounts provided in the accounts, with the result that income taxes currently payable are \$20,200 (1966 - \$31,400) less than the provision for income taxes. This difference is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the consolidated balance sheet in the item "Deferred Income Taxes".
2. Options are outstanding whereby certain employees may purchase shares as follows:
31,000 shares at a price of 50c per share on or before July 31, 1968
153,000 shares at a price of 50c per share on or before March 1, 1968
A further 81,000 shares are reserved for issuance under stock option plans which may be granted to employees.
3. During 1966 certain land and buildings, owned by a subsidiary company, were expropriated by the Province of Manitoba. As negotiations to determine the final expropriation amount are not yet complete there is included in "Accounts Receivable -other" an amount, conservatively estimated by management, to recover the book value of the real estate expropriated and moving and relocation costs.
4. Deferred charges represent mining exploration expenditures incurred in the Skeena mining division in British Columbia. These expenditures have been deferred pending completion of the exploration program.
5. A subsidiary company leases premises under a long term lease which expires in 1986 and requires rental payments of \$33,900 during 1968. As a result of capital expenditures made by the company on behalf of the lessor a portion of the rent has been prepaid for the years 1968 to 1971. Under the terms of the lease the company has the option to purchase, on October 1, 1971, the land and buildings for \$240,000.
6. Selling, general and administrative expenses for 1967 include directors' and officers' remuneration of \$50,470.

AUDITOR'S REPORT

To the Shareholders of Ponder Oils Ltd.

We have examined the consolidated balance sheet of Ponder Oils Ltd. and its subsidiaries as at December 31, 1967 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
March 19, 1968

PRICE WATERHOUSE & CO.
Chartered Accountants.

PONDER OILS LTD.
AND WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

	1967	1966
Gross sales	<u>\$2,916,057</u>	<u>\$2,708,822</u>
Costs and expenses:		
Cost of sales	2,120,761	1,991,069
Selling, general and administrative expenses (Note 6) ..	268,303	307,139
Interest on long term debt	7,599	10,755
Dry holes and abandoned leases	22,149	26,452
Depreciation	103,056	90,623
Depletion	<u>14,250</u>	<u>18,073</u>
	2,536,118	2,444,111
Profit from operations	379,939	264,711
Other income	<u>4,837</u>	<u>8,336</u>
	384,776	273,047
Provision for income taxes (Note 1)	<u>190,678</u>	<u>143,330</u>
Net income for year	194,098	129,717
Retained earnings, beginning of year	<u>481,016</u>	<u>429,470</u>
	675,114	559,187
Deduct—Dividends paid	<u>78,171</u>	<u>78,171</u>
Retained earnings, end of year	<u>\$ 596,943</u>	<u>\$ 481,016</u>

PONDER OILS LTD.
AND WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1967
(with comparative figures for 1966)

	1967	1966
Source of funds:		
Funds provided by operations:		
Net profit for the year	\$194,098	\$129,717
Add—Charges not requiring funds:		
Depreciation, depletion and amortization	117,306	108,696
Increase in deferred income taxes	20,200	31,400
Reduction in rent paid in advance	<u>7,428</u>	<u>.....</u>
	339,032	269,813
Mortgage payable	14,549
Proceeds from sale of fixed assets	<u>.....</u>	<u>140,354</u>
	<u>353,581</u>	<u>410,167</u>
Application of funds:		
Dividends paid	78,171	78,171
Purchases of property, plant and equipment	78,396	236,282
Deferred charges—mining exploration	56,220	3,190
Decrease in long term debt	115,000
Rent paid in advance	27,852
Payment of refundable tax	<u>720</u>	<u>4,227</u>
	<u>213,507</u>	<u>464,722</u>
Increase (decrease) in working capital	140,074	(54,555)
Working capital, beginning of year	<u>208,947</u>	<u>263,502</u>
Working capital, end of year	<u><u>\$349,021</u></u>	<u><u>\$208,947</u></u>

The sign at 1205 Sherwin Road, Winnipeg, Manitoba. Universal Printers Ltd. new (1966) plant.

UNIVERSAL PRINTERS LTD.

SUBSIDIARY OF PONDER OILS LTD.

Printed in Canada